

Appendix A: Terms of Reference

GOVERNMENT PRICES OVERSIGHT ACT 1995

INVESTIGATION INTO THE PRICING POLICIES OF METRO TASMANIA

The Terms of Reference for the investigation to be conducted by the Government Prices Oversight Commission ("the Commission") into the pricing policies of Metro Tasmania Pty Ltd (Metro) are outlined below. These Terms of Reference address each of the issues outlined in section 25 of the *Government Prices Oversight Act 1995* ("the Act").

The Functions and Other Activities of Metro

The main objectives and activities of Metro, as outlined in the *Metro Tasmania Act 1997* and the Metro Corporate Plan, 1999-2002, are as follows:

- (a) to provide road passenger transport services in Tasmania and to operate those services in a manner consistent with sound commercial practice;
- (b) to perform on behalf of the State its community service obligations in an efficient and effective manner, as specified in the Community Service Agreement; and
- (c) to perform any other objectives specified in the *Metro Tasmania Act 1997*.

The Pricing Policies and the Monopoly Service to be Investigated

The Commission is to investigate the pricing policies associated with the current provision of scheduled route services by Metro in the metropolitan areas of Hobart, Launceston and Burnie and the town of Ulverstone.

The Date of Completion

The Commission must provide a copy of the Final Report required under section 35 of the Act in respect of the Metro investigation by 2 June 2000.

Additional Matters to be Taken into Account

In addition to taking into account the matters explicitly referred to in section 31 of the Act, the Commission must also take into account the following issue when conducting the Metro pricing investigation:

- the effect of the Goods and Services Tax and other elements of the New Tax System on the pricing policies of Metro; and
- National Competition Policy requirements as they apply for regular passenger transport services.

Requirement for the Commission to Make Recommendations

The Final Report provided by the Commission under section 35 of the Act must contain recommendations in relation to appropriate maximum prices (as defined in section 4 of the Act) to be charged by Metro in respect of these bus services during the period of three years after the completion of the Final Report.

Draft Report

At an appropriate time during the investigation, the Commission must make available a draft Report.

MATTERS TO BE CONSIDERED

The *Government Prices Oversight Act 1995* (Section 31) requires that:

“In an investigation, the Commission must consider the following:—

- (a) the cost of supplying or providing the monopoly service;
- (b) any interstate or international benchmarks for prices, costs, revenues and return on assets in bodies supplying a service similar to the monopoly service;
- (c) the need to protect consumers from the adverse effects of the exercise of monopoly power by a monopoly provider in relation to prices, pricing policies and standards of service in respect of the supply of the monopoly service;
- (d) where appropriate, the need for a reasonable return to the State (including the payment of dividends) on the assets of a monopoly provider;
- (e) the need for efficiency in the supply of the monopoly service for the purpose of benefiting the public interest through a reduction in the cost of supplying the monopoly service;
- (f) the effects of inflation;
- (g) the need for the monopoly provider to be financially viable;
- (h) the impact on pricing policies of any borrowing, capital, dividend and tax equivalent obligations of the monopoly provider, including obligations to renew or increase assets;
- (i) any ministerial charter that applies to the monopoly provider;
- (j) any community service obligations of the monopoly provider;
- (k) the quality of the supply of the monopoly service;
- (l) the matters set out in the terms of reference;
- (m) any other matter the Commission considers relevant.”

Appendix B: GPOC Legislative and Policy Framework

National Competition Policy

The Government Prices Oversight Commission was set up as part of Tasmania's commitment to the National Competition Policy (NCP) Agreements which were signed by the Council of Australian Governments (COAG) in April 1995.

The purpose of the NCP is to promote competition in the interests of efficiency and economic growth, while dealing with social objectives and concerns about market failure. If there is no effective competition for supply of a particular Government service, there should be independent oversight of prices. Commonwealth prices oversight is to apply in the absence of an appropriate State body.

The philosophy of the NCP Agreements was that a prices oversight body should have the following characteristics:

- (a) *it should be independent from the Government Business Enterprise whose prices are being assessed;*
- (b) *its prime objective should be one of efficient resource allocation but with regard to any explicitly identified and defined community service obligations imposed on a business enterprise by the Government or legislature of the jurisdiction that owns the enterprise;*
- (c) *it should apply to all significant Government Business Enterprises that are monopoly, or near monopoly, suppliers of goods or services (or both);*
- (d) *it should permit submissions by interested persons; and*
- (e) *its pricing recommendations and the reasons for them should be published.*

The Tasmanian Government Prices Oversight Commission has been set up to fulfil these principles.

The Government Prices Oversight Act

The *Government Prices Oversight Act 1995* is the legislative authority for the Commission. It provides for the investigation of pricing policies of Tasmanian GBEs and Agencies that provide monopoly services and goods, and for the recommendation of maximum prices.

Conduct of Investigations

The Commission must conduct an investigation in accordance with a requirement to investigate given by the Minister (the Treasurer), the relevant terms of reference and the Act.

Subject to these requirements, the Commission may conduct an investigation in any manner it considers appropriate. It may consult with any person, hold hearings and seminars, and conduct workshops.

It may obtain information through submissions and may require information to be provided to it under Section 29 of the Act.

Confidentiality of Information

In regard to information provided in response to a Section 29 request, the Commission may give directions prohibiting or restricting the publication of material provided to it.

As a matter of policy, the Commission will not publish material which is provided to it in confidence. Further, the Act prohibits the Commission from publication of any material which, if published, could damage the commercial interests of a monopoly provider.

Reports

The Terms of Reference may require the release of a Draft Report (as has been required in this Investigation). The Final Report must contain the Commission's recommendations in regard to the maximum prices to be charged by the monopoly provider for the period of three years after the completion of the report.

Price Setting

The role of the Commission is to recommend appropriate maximum prices based on economic principles. The final decision on the level of maximum prices rests with Government.

Upon receiving the Commission's recommendations, the portfolio Minister, after consulting with his or her cabinet colleagues and the monopoly provider, formulates an Order prescribing maximum prices. The Minister's Order may also take into account the social consequences of the prescribed maximum price levels and other factors. The Minister's Order is disallowable by either House of Parliament.

The Order also extinguishes previous powers for setting prices.

Appendix C: Schedule of Submissions received in response to the Issues Paper

Name	Key Points
Robert Hobart	<ul style="list-style-type: none"> ❖ Some pensioners are being discriminated against by the restrictions on the use of all-day tickets. ❖ Restrictions on all-day tickets should be removed for pensioners, children and adults.
Bus & Coach Association (Tas) Inc Perth. Tas	<ul style="list-style-type: none"> ❖ Transfers and charters should not be included in the matrix for bus kilometre and passenger trips. ❖ GPOC should look at the fare box and “the relevant top-ups should be paid on a level playing field with private enterprise (pensioners, students – unemployed) and contract services paid by the Government at a standard commercial rate”.
Waratah-Wynyard Council	<ul style="list-style-type: none"> ❖ Social considerations should remain the primary factor when determining a new price structure. ❖ Effects of GST on fares. ❖ Further fare increases should be phased in over a longer time frame to avoid disadvantaging certain sections of the community. ❖ Community Transport Services Inc (Tasmania) currently set their fare structure around the Metro fare for concession card holders. Increase in Metro fares will have immediate impact on the fares charged in the community transport sector. ❖ A substantial number of people from Waratah-Wynyard area rely on Metro for transport to Burnie to use Service Tasmania. ❖ Metro to be commended for the extended routes provided within the townships of Wynyard and Somerset, areas that are popular with the senior members of the community.
Dept of Infrastructure Energy and Resources, Hobart	<ul style="list-style-type: none"> ❖ Indexation – present indexation using CPI does not adequately reflect the variation in cost inputs to Metro business. ❖ Return on equity – need to include a return on equity into any benchmarking or competitive tendering process. ❖ Service contract post 2001 – will address issues including the followings: <ul style="list-style-type: none"> ▪ Service definition ▪ Benchmarking ▪ Performance Motivators ▪ Indexation ▪ Mechanism for rationalisation of services
RDM Cotgrove, Hobart	<ul style="list-style-type: none"> ❖ Bus services would be more efficiently and equitably provided at the local level, with decision regarding bus routes, timetable, fare structures and other services levels being determined democratically and transparently by rate-payer elected boards of management. ❖ There is a misunderstanding of urban travel demands by desegregating travel patterns into sets of independent discrete “trips”. ❖ Reasons for continual decline of Metro patronage are: <ul style="list-style-type: none"> ▪ increase car ownership; ▪ changing work patterns; ▪ changing land use patterns; and

Name	Key Points
	<ul style="list-style-type: none"> ▪ increasing desire of people to decide their own travelling behaviour. ❖ The travel needs of the transport disadvantaged do not coincide with those of employed commuters. The best way of satisfying the disparate demands of different transport disadvantage groups is to provide community-based transport tailored to their specific needs. ❖ Payment of large subsidies to Metro is not the best way to provide CSOs. Subsidies should be paid directly to the targeted transport disadvantaged groups.
Geoff Squibb MLC Member for Mersey	<ul style="list-style-type: none"> ❖ Taxpayers and Metro users would be better served if Metro was sold or its operations were tendered on a regular basis.
Russ Goodluck Transport Consultant (On behalf of Malcom Fenton)	<ul style="list-style-type: none"> ❖ Reductions in Metro patronage have not resulted in a corresponding rationalisation of services. ❖ Some of Metro's lowly patronised dedicated school bus services could be easily catered for by other services operated at the same time over almost identical routes. ❖ New services introduced in Ulverstone 14 months ago did not increase Metro's patronage level. ❖ Students refuse to use Metro service in Ulverstone because the huge disparity in fares. ❖ Metro's advertising campaign has not been effective. ❖ Reduction in Metro's advertising budget will not contribute to a significant decline in patronage but result in considerable savings. ❖ While Metro competes with the private sector in the area of student transport, the competition has not contributed to a more cost-effective system of public transport but is a drain on the public purse. ❖ There is a need for rationalisation, which will improve the position of Metro and the private sector. ❖ In competition with the private sector, Metro has been charging "ridiculous" charter rates. ❖ There is a need to set benchmark targets for cost efficiencies at the level of efficient private sector operators. ❖ Metro fares should be based on School Bus Index. ❖ Funding for Metro's student services should be based on the same system in place for the private operator. ❖ Detailed examination should be made of all Metro's services.
Launceston City Council	<ul style="list-style-type: none"> ❖ It is a core business of the Government to fund public transport, thus the commercial risk must be spread between the Government and the suppliers of the public transport services. ❖ The make up of the Metro clients means that any rise in fares will adversely affect these people. Good marketing could assist in removing the apparent stigma that goes with bus use hence strengthening customer base. ❖ There is a strong argument for "social obligation" if transport is seen as a core business of the Government. There should be a balance of social and environmental considerations in any findings on Metro fare policies. ❖ If public transport is not a core business of the Government, the best delivery of service could be handled by calling for open bids in the market place. ❖ There is a need to define the expected level of service required by the Government. This will give the client of the service some way of defining social and environment obligation and taking these

Name	Key Points
	<p>factors into account when the service provider supplies a pricing structure.</p> <ul style="list-style-type: none"> ❖ Private contractors also face the same risk associated with fluctuation in outside factors like fuel as Metro does. ❖ Incentive to maximise usage should be factored into a tender. Returns made as a result of innovation or efficiency should be shared between the client and the service providers. ❖ GST is also likely to impact on fares, leading to a further reduction in use. ❖ It is recognised that the link between fare level and efficiency is minor but price should not be the only determining factor. ❖ In the interest of transparency, the same subsidy paid to a Government run enterprise should also be paid to a private operator. ❖ Public transport was seen as an equalising tool for access issues, both in terms of disability and social factors. ❖ Greater use of public transport has positive environment effects.
Department of Health and Human Services, Hobart	<ul style="list-style-type: none"> ❖ Increase in current fares may seriously disadvantage low-income earners. ❖ Any fare increase based on distance travelled would cause undue hardship and seriously restrict ability by residents of housing estates in outlying suburbs to access essential services. ❖ Increase in concession fares will result in hardship among seniors and concession card holders and may restrict their ability to access required services. ❖ Any fare increase should remain linked to CPI. ❖ Special needs groups are dependent on the public transport system to access essential Government services. It is essential that State Government policies do not impose greater hardship on disadvantaged members of the community. ❖ Community Service Obligations of the Government are to be properly defined to ensure that services are provided in a competitive environment and meet the community's needs and expectations.

Appendix D: Financial Statements

Table Error! No text of specified style in document..1 Forecast Balance Sheet – 30 June 2000 to 30 June 2003

	30 June 2000 \$'000	30 June 2001 \$'000	30 June 2002 \$'000	30 June 2003 \$'000
Current Assets				
Cash	16	1 279	1 938	2 057
Investments	1 076	1 076	1 076	1 076
Other	1 787	1 788	1 787	1 787
Total Current Assets	2 879	4 143	4 801	4 920
Non-Current Assets				
Investments	762	912	1 132	1 392
Property, Plant and Equipment	27 848	26 618	26 135	26 303
Other	1 400	1 400	1 400	1 400
Total Non-Current Assets	30 010	28 930	28 667	29 095
Total Assets	32 890	33 073	33 468	34 015
Current Liabilities				
Accounts payable	1 320	1 487	1 487	1 487
Borrowings	514	2 937	4	149
Provisions	3 118	3 118	3 118	3 118
Total Current Liabilities	4 952	7 542	4 609	4 754
Non-current Liabilities				
Borrowings	3 179	242	3 030	2 881
Provisions	9 072	9 602	10 142	10 693
Total Non-current Liabilities	12 251	9 844	13 172	13 574
Net Assets	15 686	15 687	15 687	15 687
Equity				
Shareholders Equity on Formation	15 494	15 494	15 494	15494
Retained Profits	193	193	193	193
Total Equity	15 687	15 687	15 687	15687

Source: Metro Tasmania

Appendix E: Metro Sales and Boardings – All Cities

Ticket Type	Fare	Tickets Sold	Fare Rev \$	Total Boardings
<i>Adult (Full)</i>				
1-2 sec	1.20	510,903	613,085	518,135
3-4 sec	1.60	359,663	575,461	383,646
5-7 sec	1.90	176,992	336,286	210,151
8-10 sec	2.10	31,934	67,062	39,153
11-15 sec	2.80	5,908	16,542	6,663
1-2 M10	9.60	12,391	118,952	134,248
3-4 M10	12.80	20,893	267,420	231,514
5-7 M10	15.20	14,421	219,212	177,289
8-10 M10	16.80	2,813	47,259	34,823
11-15 M10	21.60	678	14,636	7,312
Day Rover	3.10	34,921	108,255	92,520
Rov 10 Day	24.00	245	5,876	7,677
Sub-Total		1,171,762	2,390,046	1,843,131
<i>Adult Concession</i>				
Ad Con	1.20	622,269	746,722	796,315
Ad Con M10	9.60	41,352	396,981	538,658
Day Trip	1.90	637,978	1,212,159	1,646,256
Trip M10	15.20	5,804	88,219	173,810
Sen Day	2.10	76,779	161,236	229,768
Sen M10	18.00	37	665	569
Family	9.00	180	1,618	882
Sub Total		1,384,399	2,607,600	3,386,258
<i>Child/Student</i>				
Ch/Sch	1.20	733,988	880,785	954,549
Ch/Sch M10	9.60	93,338	896,043	1,120,804
Ch/Sch Mth	38.40	3,099	118,995	174,818
Free		-	-	1,496,448
Sub Total		830,425	1,895,823	3,746,619
<i>Tertiary</i>				
Tert M10	10.00	17,570	175,697	233,189
Tert Mth	40.00	1,188	47,517	67,574
Sub Total		18,758	223,214	300,763
TOTAL		6,791,930	7,116,683	9,276,771

Sourced from Metro submission, Appendix D.